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Homeownership for Low Income Families: Financial Implications

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HOMEOWNERSHIP was not always as popular as it is today. In the 1940's, books were published with titles like *Home Ownership: Is It Sound?*, and in the 1930's a lecturer on Housing and Community Planning at Columbia University could say:

> The tenacity of the superstitions which have been built up around the "ideals" of homeownership passes understanding . . . the agencies which conspire to encourage and promote homeownership are a menace to the economic structure of the country. They are leeches sucking the life-blood of the workers and their families.[1]

The experience of the Great Depression no doubt accounts for some of the vividness of Miss Arnovici's language. Yet even today real estate textbooks occasionally caution that not every family "should" own its own home, and raise particular questions about the feasibility of homeownership for the very poor.[2]

The present paper is an attempt to explore some questions about the specifically financial assumptions that usually underlie the advocacy of homeownership for the poor. It focuses on a very narrow part of a broad problem. The general question, to whose answer it seeks to contribute, is: "Should public policy encourage homeownership for families of low income?" That general question itself needs ultimately to be seen in the broader context of those ultimate outputs which housing policy is concerned to promote: not merely shelter, but a whole complex of results—outputs—of housing services which include health, comfort, social satisfaction, economic well-being, creativity, security, perhaps political stability. The housing services that contribute to these outputs include far more than the physical housing stock; they include the quality of maintenance, form of management and its relation to its occupants, the provision of utilities, the level of neighborhood services and facilities, etc.

The limited purpose of the present paper is to question some of the assumptions about homeownership, the acceptance of which, it is contended, has either prevented or vitiated a careful analysis of the pros and cons of homeownership. Hopefully it will help open for discussion some critical questions about homeownership with which housing policy analysis has dealt inadequately thus far.

The assumptions about homeownership considered here, then, are: first, that buying a house is generally a good investment; second, that living in that house by the owner makes the investment more attractive and improves maintenance; third, that its tax advantages suggest broader public encouragement of homeownership; fourth, that transaction costs of buying are greater than those of renting; fifth, that homeownership affords protection against changes in the costs of housing. Any comparison of the different forms of ten-

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[1] Carol Aronovici, *Housing the Masses* (New York: John Wiley & Sons, Inc., 1939), pp. 120–121.

[2] Alfred A. Ring and Nelson L. North, *Real Estate, Principles and Practices* (Englewood Cliffs New Jersey: Prentice-Hall, Sixth Edition).

ure could logically start with an examination of these propositions.

Investment Advantages

An owner-occupant has a double relationship to his house: as its occupant and as its owner. When we speak of the investment features of homeownership, we are talking about the advantages to the owner-occupant *as owner*: will he make money when he sells the house? Can he afford the down payment? Is the investment a risky one? Does he get any current profit from it? In other contexts, however, we compare the owner-occupant *as occupant* with the tenant: does he take better care of his unit? Is he more secure in his occupancy? Does he have greater control over the use of the unit?

It is not always easy to separate the two capacities, yet it is critically important for clear analysis to do so.[3] For instance, we often say that the owner-occupant is better protected against rising housing costs than the tenant whose rents may be raised at any time. In a rising market, indeed, the owner-occupant's housing expense may not increase as *occupant* but as *owner* he is losing out on a potential increase in his investment income. If, under identical market conditions, an owner-*non-occupant* is better off, but an owner-*occupant* is merely as well off, the owner-occupant is suffering from the rise in rental levels as much as the tenant.

The advantages and disadvantages that accrue to him as *owner* must be compared to those he would receive as a property-owner/investor even if he did not live in the house he owned; those that accrue to him as *occupant* must be compared to those he would have were he merely a tenant in his own house. Three quite separate questions can then be asked: Is the ownership of residential property a wise investment for an average low-income family? Does a family's living in the property which it owns affect the wisdom of the investment? Does a family's owning the property in which it lives affect its costs of occupancy?

The first two questions are considered in this paper. As to the third, the answer must depend on whether either the size or the incidence of any specific costs is changed with a change in tenure. The author has elsewhere considered the several distinct items of cost separately and in detail.[4] While no quantitative answer was attempted, the general conclusion of the Douglas Commission seemed to be plausible: "homeownership and rental housing involve for the most part the same basic cost elements; apparent differences reflect the manner in which payments are made rather than differences in cost components."[5]

As to the first question, the desirability of an investment in residential real estate is not easy to determine. If, after a period of occupancy, a house were to be re-sold for its original purchase price, it has not simply thrown off its gross rental value as a clear return each year for 10 years. Maintenance, taxes, etc., must be deducted from the return. Further, the effects of price inflation must be taken into account. While house prices have increased steadily over the

[3] Edgar Olsen phrases the same point by reference to "two housing markets . . . one for a consumer good . . . housing service," the other for "an investment good . . . housing stock." Edgar Olsen, "A Competitive Theory of the Housing Market," *The American Economic Review*, September 1969, p. 4.

[4] Peter Marcuse, *To Buy or Not to Buy* (Washington, D.C.: The Urban Institute Working Paper No. 112–126, March 10, 1971).

[5] National Commission on Urban Problems (Douglas Commission) *Building the American City* (Washington, D.C.: Government Printing Office, 1968).

last three decades, there is no a priori way of telling whether, taking all factors into account, residential real estate will be a superior investment to any given alternative, common stocks, for example.

Indeed, a priori reasoning would lead to the conclusion that residential real estate should in the long run be exactly as good an investment as any other investment, taking all aspects into account. If it were otherwise, investments would shift till equality was obtained.[6]

The most fruitful way to approach the evaluation of residential real estate as an investment may be to look at those factors that differentiate it from other investments. Since our concern is primarily with its quality as an investment for lower-income families, the alternative investments available to them are the appropriate standards of comparison. Seven key differentiating factors stand out. Before taking them up, however, it is worth noting that one frequent part of the conventional wisdom about the advisability of homeownership must be discarded at the outset: that it is good in a rising real estate market and bad in a declining one.

The quality of an investment in real estate does not depend simply on whether prices are at the moment rising or falling or whether the purchase is in a stable or a prestigious neighborhood or in a declining neighborhood. The seller's and buyer's expectations on the likely future amount and direction of prices and of income, be it up or down, will influence the present price in such fashion that the net expected return on the investment will be the same. Houses, like stocks, are bought and sold in falling markets as well as in rising markets. The volume of trading in stocks does not depend on the direction of the market; and buyers of stocks, when their price happens to be falling, have not necessarily sold short nor wasted their money. The same holds true, with the exceptions noted below, for real estate as an investment. However, a number of factors do differentiate real estate from other investments normally available to home purchasers of low income.

(1) *The Quality of Available Properties.* The first factor is the quality of residential real estate available to a low-income investor. It is a common impression that real estate is bound to be a good long-term investment. Studies and reports which speak of the "fantastic rise in raw land costs" help promulgate this belief.[7] As Grace Milgram points out, however, in one of the few careful studies on land values which holds location constant, many estimates of long-range land price appreciation are based on averages from which the risks to any particular investor on any given parcel may deviate widely.[8] Further, many estimates rely on FHA figures only, although FHA-insured transactions are not typical of the housing market generally. Often they do not take into account changes in the quantity and quality of housing being valued. While inflation is often ac-

[6] "Investment interests in property . . . are not essentially different from stocks and shares from the point of view of investors, except that they are in general less liquid . . . the yield of investment interests in property is linked to the yields of securities quoted on the Stock Exchange . . . the two sets of yields tend to more broadly parallel one another, the two types of investment being broad substitutes." Ralph Turvey, *The Economics of Real Property* (London: George Allen and Unwin, 1957), p. 31.

[7] Neill N. Gold and Paul Davidoff, "The Supply and Availability of Land for Low- and Moderate-Income Families," *Report of the President's Committee on Urban Housing Technical Studies*, Volume II (Washington, D.C.: Government Printing Office, 1968), p. 348.

[8] Grace Milgram, *The City Expands*, prepared under contract with the Office of the Secretary, Department of Housing and Urban Development by the Institute for Environmental Studies, University of Pennsylvania (Washington, D.C.: Government Printing Office, March 1967).

counted for, comparisons with other investments often do not take into account the fact that compound income must be computed on other investments which pay a current return. Finally, long-term trends conceal short-term falls as well as rises in price.

Within the parameters of long-term changes in real property values, it is logical to suppose that the typical low-income investor will have below-average rather than above-average experience. His weak cash position in itself confines him to the lower end of the market, which is likely to include older houses in older neighborhoods outside of growth areas, subject to poorer municipal services, and more likely to depreciate rapidly in value.[9] When, within this already unfavorable market, we place a family with little experience in bargaining, limited information, and the necessity of buying a house that is suitable for its own special needs as occupants in addition to being an investment, the likelihood of an above-average investment is slim.[10]

(2) *Inaccessibility of Information.* The structure of the real estate market leads to a second difference between real estate and other investments for low-income families. There is no stock exchange for houses, no daily published average of prices offered and asked for comparable pieces of real estate. Indeed, the very nature of the beast makes comparisons difficult and identities impossible; the precise fair value of parcel A on a day B is always a matter of judgment. While low-income families are economically less able to take risks or act on incomplete information, they are forced to do so when they invest in residential real estate.

Most real estate prices are set as a result of individual bargaining between the parties to that particular transaction. By buying real estate, low-income families, the least likely to have the information, experience, or expertise to bargain well, are buying a commodity in the purchase of which bargaining is almost uniquely important. That they will get the short end of the stick in many cases is not an unlikely conjecture.[11] No Securities and Exchange Commission or Federal Deposit Insurance Corporation or state regulatory commission protects the low-income real estate buyer from the doctrine of *caveat emptor.*

(3) *High Risk.* Low-income families should be safety-seekers, or risk-averters, in their investment policies. "Should" is here used not in its moral sense, but as generally accepted economic doctrine. If a family that earns $3,000 a year gambles $1,000 on even odds, it is taking a poor bet economically, because its 2,001st dollar which may be lost is worth more to it than the 4,000th dollar which it may gain. Ben Franklin's precepts are directed most pointedly at the poor.[12]

[9] Federal Housing Administration, Market Analysis Services, FHA *Techniques of Housing Market Analysis,* Washington, D.C., January 1970, p. 101.

[10] As an example, see the reactions of Philadelphia bankers to the homes a typical $4,000–$7,000 a year family in that city can buy, referred to in the Philadelphia Housing Association study by Linda Niebarch, p. 41.

[11] The recent House Subcommittee investigation into sales practices under Section 235 gives some selective examples of the pitfall low-income families have fallen into in the real estate market.

[12] It is not so clear that all low-income families follow Ben Franklin's teachings; the income distribution of numbers players does not seem to bear him out. There may in reality be a "threshold" below which the marginal value of $1 is very little, since its holder cannot do anything much with it anyway. The small possibility of a high gain is then valued disproportionately high, since it may be the difference between poverty and decency. Discussion in the economic literature abounds. Arrow summarizes it by saying ". . . it is widely accepted that individuals are not indifferent to uncertainty and will not, in general, value assets with uncertain returns at their expected values." (Arrow) The direction of the deviation is not so accepted. Arrow himself argues that absolute risk aversion increases as wealth

Residential real estate is not the safest investment available to them.

(4) *Flexibility: Liquidity and the Continuing Obligation to Invest.* Real estate is an illiquid and long-term investment. If it is financed through a mortgage in which amortization exceeds depreciation, the excess is a form of savings which must be made every month.[13] Such a continuing obligation is absent from other investments that a low-income family might make. The lack of liquidity and the continuing obligation to make payments, which together may be called the inflexibility of the investment, are taken into account over the long run in the market-determined return on the investment. But if the inflexibility is more of a disadvantage to low-income families than to other investors, then the market return to them is not sufficient compensation and they should not invest in real estate. Inflexibility is in fact more of a disadvantage to them because of their more tenuous balance between income and essential expenditures. Such families need more financial flexibility, not less, than higher-income investors.

(5) *Discount Rates.* Differing discount rates create a fifth distinction between real estate and other investments for low-income families. The return on any investment includes both the current return and the ultimate capital gain (or loss) discounted to its current value. For a prospective investor whose personal discount rate is higher than the average or market rate, an investment with a higher-than-average current return and a lower-than-average long-term gain would be indicated. A house will be a poor buy for him.

The lower the income, the higher the discount rate, according to economic theory. Low-income families are thus not generally active buyers in the long-term investment market. Given a choice between investment and spending, the pressure of immediate needs gives priority to the latter—low-income families are "present-oriented" rather than "future-oriented."[14] But a significant part of the investment value of housing is the possibility of long-term gain.

(6) *Opportunity for the Investment of Labor.* An owner can, through the use of his own labor, reduce the cost and increase the value of his investment in housing in a way not possible with most other investment opportunities. The opportunity to paint, to fix plumbing, to make repairs, is an opportunity to invest labor for an economic return which ownership of a common stock does not provide him.

If the time the homeowner spent in maintaining his unit would otherwise be profitably used, then questions must be answered about the relative efficiency of his time spent in maintenance versus his time spent in other ways, the possibilities of economies of scale in a landlord's maintenance of a number of units, the possibilities of idiosyncratic versus profit-dictated (i.e., economically efficient) decision-making, the relative cost of travel time, and so forth.[15] But most

increases. Other theories postulate that it is based on an uneven utility of wealth function.

[13] Professor Goldsmith has estimated the useful life of housing in the United States at 80 years, but even the FHA's Section 235 program customarily issues mortgages only up to 30 years.

[14] "Lower-status people are regarded as being less sophisticated financially and less future-oriented, indicating greater reluctance to involvement in homeownership." Jacob M. Duker, "Housewife and Working-Wife Families: A Housing Comparison," *Land Economics*, May 1970, p. 139.

[15] The issue is in fact a live one in public housing today, where tenants are in some situations facing a choice between maximizing individual maintenance and getting reduction or offset against rent for it, or forming a tenant maintenance corporation and doing the work as a business entity, distributing its profits to the tenants. In conventional multi-

low-income families are underemployed, so these considerations will not lessen the advantage they obtain from the opportunities for self-maintenance.[16]

Consequences of Combining Ownership With Occupancy

We have thus far considered homeownership as purely an investment for a low-income family, ignoring the fact that it would also be the occupant of the investment it owned. That fact has several important consequences, some affecting it as owner, some as occupant.

(1) *Forced Consumption.* One consequence of the investment in housing by an owner who expects to occupy the home himself is the fact that the return on that investment is available to him only as a consumption item as long as he lives in the house. If he would in any event spend as much as that return for housing consumption, he is no better and no worse off than if he rented; but if he would prefer to take an increase in the return on his investment in something other than housing, or to reinvest it, he is not free to do so without moving out.

(2) *Market Effect of Low-Income Occupancy.* Personal occupancy by its owner-investor can affect the value of his investment in an unfortunate way if the owner is a lower-income family, particularly if it belongs to a minority group also.[17] Neighborhoods decline for many reasons, and cause and effect are hard to separate. The process of decline normally includes a more or less parallel set of trends: falling real estate prices, aging of the housing stock, reduced maintenance and increased deterioration, increased density of occupancy, lower incomes of occupants, change in nationality and racial composition, aging of community facilities, lowering of the quality of municipal and community services, negative attitudes by lending institutions, activity by a different type of owner and real estate operator, and increases in crimes, vandalism and delinquency.[18] Nathan Strauss, writing in 1943, listed "slum dwellers create the slums" as one of the seven myths of housing and the etiology of slums is a great deal more complicated than that.[19] It did not take Elizabeth Wood, however, to point out to public housing administrators that good housing does not cure all the ills that beset slum dwellers. Between the prejudices of most well-housed Americans and the problems of the ill-housed, the movement of the latter next door to the former may well be followed by a drop in real estate values.

Public policy can either promote (where it does not cause) or inhibit this development. If income assistance is given to the poor homebuyer; if community services are upgraded; if adequate maintenance and repairs are guaranteed; if locational choices are not restricted by public and private prejudices; then declines in value may well not occur. If, on the other hand, a poor family has or is given just enough money to buy

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family buildings, at least, the tenant corporation seems to have the edge.

[16] Whether this opportunity could not be as well provided under rental occupancy is beginning to be more carefully examined. See, for instance, Stanley Lebergott, "Slum Housing: A Proposal," *Journal of Political Economy,* November-December 1970.

[17] Bernard J. Frieden, *The Future of Old Neighborhoods* (Cambridge: MIT Press, 1964), p. 31.

[18] Lawrence Friedman has phrased the relation between bigotry and such an analysis neatly, in speaking of the effect of Negro movement: "It is not bigotry but fact that neighborhoods decay when they become Negro ghettoes. The bigotry consists of the belief that race causes the decay." Friedman, *Government and Slum Housing* (Chicago: Rand McNally, 1968).

[19] Nathan Strauss, *The Seven Myths of Housing* (New York: Alfred A. Knopf, 1945), p. 53.

the cheapest house on the market; if it cannot afford routine upkeep, nor accumulate reserves for major repairs; if the quality of the schools, the streets, the police, sanitation services, and the level of other residential amenities is declining; and if the other problems of employment, health, education, continue to be oppressive, then the poor family's investment in its home may be an unrewarding one.

(3) *Reduction in Vandalism, Vacancies, and Wear and Tear.* The superior maintenance of owner-occupied homes is, in the general view, clear. But it is very hard to prove a cause-effect relationship. Owner-occupied homes may be better maintained than tenant-occupied ones because most owners are economically better off and better able to afford good maintenance than most tenants. Those placing greater value on a well-maintained residence may gravitate towards ownership, so that a self-selection process may run from better maintenance to ownership, not the other way around.[20] Higher-income tenants seem to get as good maintenance from their landlords as higher-income owners provide for themselves. Perhaps the answer for lower-income tenants is to insist on an equally high level of maintenance by their landlord. In any event, a homeowner does not get free maintenance of his house; he has to expend his own labor for it. Whether the cost of that labor is more or less than the similar cost to an absentee owner will depend on the occupants' particular skills, his potential earnings elsewhere, etc.

It is clear that the problems of management and maintenance, which are greater for residential real estate than for many other investments, are reduced—up to a point—if the owner is also the occupant of the house. He gains in the immediacy with which physical problems affecting the premises come to his attention and generally in the convenience with which he can attend to them. His vacancy losses are reduced, but at the expense of his own mobility. Even more he is assured of an occupant who has an incentive to avoid vandalism, pay his occupancy costs promptly, and so forth.

But exactly what is this incentive? As far as motivation as *owners* goes, purely financial considerations would lead the absentee owner and the owner-occupant to maintain their houses equally, if indeed they would not lead the owner-occupant to maintain less well, since his tenant will not leave or complain to the building inspector quite as quickly!

The difference lies rather in attitudes as *occupants,* for two reasons. One is non-economic. Those living in houses they themselves own have more than money involved in their proper upkeep —they have pride, status, personal enjoyment, community respect, and other such intangibles pushing them.

The other reason is financial. The owner-occupant gets something out of good maintenance that the tenant does not. If the quality of maintenance is high, the value of the unit to the owner will be greater; if major repairs are avoided by good upkeep, economies to the owner will be achieved. These fruits are sweet to the owner, and will affect his conduct as occupant; they are hardly tasted by a tenant. As long as the tenant under the average lease commits no nuisance, the only advantage he gains out of superior maintenance is personal enjoyment of a temporarily better quality of housing.

[20] William Grigsby, *Housing Markets and Public Policy* (Philadelphia: University of Pennsylvania Press, 1963), p. 236.

Legal or institutional changes might well alter this situation. If savings in day-to-day maintenance and long-run repairs were reflected in savings in the occupancy cost the tenant had to pay, he would have the same financial incentives as the owner (absentee or resident) now has. Several experimental programs do in fact achieve approximately such a result—the public housing Turnkey III program in its early stages, for instance —but there are real physical as well as institutional obstacles to generalizing the experience. The major one is the general coincidence between tenancy and multiple-dwelling occupancy. A high-rise apartment building does not lend itself physically to as much do-it-yourself maintenance as a single-family detached house does. The advantages in maintenance which the conventional wisdom assigns to homeownership thus stem largely from social psychological factors and the financial consequences of institutional and physical constraints. From a public policy point of view, a change in institutional rent arrangements, i.e., changing the locus of the long-range benefit of better maintenance from landlord to tenant deserves further exploration.

Tax Savings

The tax advantages of homeownership over tenancy are indisputable.[21] One estimate is that they increase the value of a $16,000 house to $21,000 for an owner in the $8,000 to $10,000 bracket.[22] For the individual, this will be significant influence on the choice of tenure; and the higher the individual's income, the greater will be the influence. For low-income families, however, the influence is likely to be small, if not negligible. The Tax Reform Act of 1968 provides for an individual exemption of $625 for 1970, rising to $750 by 1973, and a higher minimum standard deduction. Today a family of five can earn $4,225 before incurring any tax. In 1973, that figure will be $4,950. For anyone whose earnings are below these figures, there are no tax advantages to homeownership.

In any event, the tax advantages of homeownership are not an argument for a public policy favoring homeownership. The tax advantages of homeownership are already the result of such a policy. Perhaps whatever lay behind the tax policy decision also justifies encouraging homeownership in other ways, and perhaps it does not. The tax benefits of homeownership show only that Congress has in the past favored this form of tenure, not that it should do so more vigorously in the future.

Higher Transaction Costs

"Transaction costs" have been put forward in a recent article as the determining factor in the rent-own decision: if a family stays four years or more in a residence, ownership is advantageous, because the transaction costs can be amortized sufficiently; when four years' rental is better.[23] In that article the transaction cost of his purchase is not charged as part of a landlord's cost of acquiring a rental unit; only a homeowner's cost of buying is included. The theory is that landlords only sell when it is profitable for them to do so, while homeowners generally sell involuntarily. But the

[21] J. C. Clendenin, *Introduction to Investments* (New York: McGraw Hill, 1950), p. 536.

[22] Philip Shade, "The Income Approach in Appraising Single Family Dwellings," *The Appraisal Journal*, July 1970, p. 394.

[23] John P. Shelton, "The Cost of Renting Versus Owning a Home," *Land Economics*, February 1968, p. 60.

landlord's cost of purchasing the building is included in the computation of his investment, and requires amortization and a return, as much as any other component part of his purchase, and raises the rent a tenant must pay correspondingly.[24] For a fair comparison to be made, more information would have to be available on the amount and frequency of landlords' transaction costs of buying and of renting, and the tenant's costs of renting (all of which are costs paid, directly or indirectly, by the tenant), as against homeowners' costs of purchase. In a rigorous analysis, the less obvious components of transaction costs —of search, for instance—discussed by this writer elsewhere[25]—would also be taken into account. An educated guess might be that homeownership's direct transaction costs are, on the average, slightly higher than rental's, but the offsetting problem of mobility should be considered at the same time.

Risk of Change in Housing Cost

The final advantage of homeownership often assigned major weight in the conventional wisdom is the protection afforded against increases in housing costs. The rent of a tenant without a lease may be increased by his landlord at any time. In theory, it will be adjusted currently to reflect the exact market value of the premises he occupies. In contrast, the homeowner, apart from operating costs, has a fixed payment to make, based on his original purchase price and his mortgage terms. In a rising market, therefore, he appears to be protected at least in part against the increase in housing costs faced by the tenant.

This is true, if we ignore the homeowner's dual capacity as owner and occupant. But if he were *only* an owner of rental property, he would be getting *higher* rents from his tenants. That increment is not realized by the owner-occupant.

What he gains as occupant in a fixed housing cost, he loses as owner. Further, the gain is in the form of a forced consumption of more housing value, as was pointed out above. He may be better off as a tenant, seeking housing at the price his own preferences dictate, and covering the consequences of inflation by investments in some other area, possibly even in other real estate in which he does not live.

Net Economic Effect of Ownership-Occupancy

The five issues discussed above: investment opportunities, maintenance advantages, tax benefits, transfer costs, and risks of change in housing cost, are the ones most often considered in comparisons of the financial benefits of owner-occupancy versus rental tenure. They by no means exhaust the possible differences between the two. To come to more definite conclusions about homeownership useful for public policy, three further steps are required:

(1) A systematic analysis of *each* cost of owner-occupancy as compared to rental tenure, by the use of categories of costs that are discrete and, taken together, inclusive. The author has elsewhere attempted the outline of such a systematic approach.[26] (2) A quantita-

[24] To argue that a landlord only pays a transfer cost when it is profitable for him to buy, and thereafter transfer cost can be ignored, is like arguing a landlord only pays a purchase price for a building when it is profitable for him to buy, and therefore the purchase price can be ignored; yet see Shelton, *op. cit.*, p. 68.

[25] Marcuse, *op. cit.*, p. 41 ff.

[26] *Ibid.*, Appendix.

tive analysis of each of these costs. (3) An evaluation of the non-financial arguments relevant to owner-occupancy, and of the financial effects on others than the occupant. The preceding discussion has been limited to effects on the occupant himself, not on the landlord, the community or others in need of housing.

This author's own tentative conclusion is that the real answer to the stance that public policy should take towards homeownership for low-income families lies in the possibilities of institutional changes in existing tenure arrangements, and in the social or political, not the financial characteristics of homeownership. By challenging some of the fallacies contained in the conventional wisdom on homeownership, economic analysis may help clear the way for a more fruitful discussion of the other issues involved.